

AR54

# Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL, QUEBEC H2Y 2H7

OWN 50.14 PER CENT OF B.C.TEL



## ANNUAL REPORT 1978



### **Directors**

THEODORE F. BROPHY  
ROGER CHARBONNEAU  
JOHN H. E. COLBY  
JOHN J. DOUGLAS

CHARLES G. FARRIS  
WILLIAM H. HARRISON  
WILFRED R. JOYCE  
JOEL P. MELLIS

### **Officers**

WILLIAM H. HARRISON  
*President*  
WILFRED R. JOYCE  
*Vice-President, Secretary and Treasurer*

JOEL P. MELLIS  
*Assistant Secretary*  
LYLE E. ORSTAD  
*Assistant Treasurer*

### **Transfer Agents and Registrars**

#### **CUMULATIVE PREFERRED STOCK**

The Royal Trust Company, Montreal, Quebec, Canada  
Co-Transfer and Co-Registrar Offices at  
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

#### **COMMON STOCK**

The Company

**To the Shareholders:**

March 16, 1979

The year 1978 was one of relatively strong growth in both revenues and net income for our Canadian operations. Results, however, were reduced in one of our companies by a direction from the governing Commission whereby \$25 million of revenues is being deferred until 1979 pursuant to the Anti-Inflation Act Guidelines. The earnings of our Dominican Republic subsidiary continue to be excluded from the consolidated results due to the severe restrictions on remittances of dividends imposed by the government of that country.

Consolidated revenues were 14.1% higher than comparable revenues for 1977, however, after the deferral of \$25 million of revenues mentioned above, the increase was 9.8%. Despite this deferral, consolidated net income for 1978 rose 10.5% to \$24.2 million.

Expansion and improvement of facilities to meet the growth and service upgrading requirements of our Canadian telephone operating subsidiaries required capital expenditures of \$264 million during 1978 compared with \$289 million during the preceding year. An estimated \$330 million is planned for capital expenditures during 1979.

The number of telephones serviced by our Canadian subsidiaries increased during 1978 to a total of 1,937,275, or 5.2% over the previous year.

British Columbia Telephone Company, 50.14% owned by Anglo, reported 1,683,421 telephones in service at the end of 1978, a gain of 5.2% for the year. Gross expenditures for telephone plant during 1978 were \$238 million, a decrease of 10.2% from the previous year principally because of strike-related disruptions both within the Company and one of its principal suppliers of cable. As previously mentioned, the Company's financial performance was constrained by the Anti-Inflation Act Guidelines ("Guidelines"). Consequently, the increase in operating revenues of 9.9% to \$551 million is artificially low and does not reflect the substantial improvement experienced by the Company in 1978. The improvement over 1977, before the deferral of \$25 million of revenues was 14.9%, primarily due to increases in long distance calling and improved growth in the number of telephones in service. The Company's total 1978 ordinary share earnings, as permitted by the Guidelines, were \$33.8 million or 16.4% over 1977. Earnings per average ordinary share amounted to \$1.55 compared to \$1.54 earned in 1977 on 2,935,668 more average ordinary shares outstanding during 1978. The 1978 actual earnings per share of the company, before the deferral of revenues, were \$2.12.



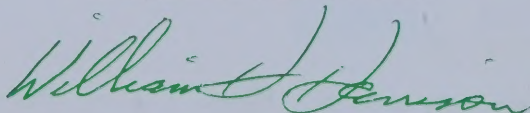
Quebec-Telephone, 54% owned by Anglo, had 253,854 telephones in service at year-end, an increase of 5.3% during the year. Gross expenditures for new plant and equipment in 1978 amounted to approximately \$46.4 million, an increase of 19% over 1977. Operating revenues increased 9% to \$84.1 million for the year, while net income available for ordinary shares increased by 18.8% to \$7.5 million. Earnings per share amounted to \$2.49 per share compared with \$2.59 per share for 1977, on 578,995 more average ordinary shares outstanding during 1978.

Compania Dominicana de Telefonos, C. por A., a wholly-owned subsidiary of Anglo, continued to grow in its efforts to meet the constant demand for increased telephone service within the Dominican Republic. Telephones in service at year-end numbered 144,612, a gain of 9.4% over 1977. Gross expenditures on new plant and equipment during 1978 amounted to \$7.3 million and the year-end gross telephone plant investment exceeded \$114 million. Operating revenues increased by \$6.9 million to \$37 million and net income increased by \$3.5 million to \$8.7 million, reversing a downward trend of the past two years. Management persists in its attempt to obtain a general rate increase which has been under application since early 1977. Dividend remittances are still restricted under governmental regulations which prevent a reasonable return on the equity investment by Anglo in the Dominican subsidiary. As a result, Anglo's consolidated financial statements continue to reflect earnings from this source on a cash basis.

All of Anglo's common stock is owned by General Telephone and Electronics Corporation and in 1978 a dividend of \$34.2 million was declared and paid. This is the first dividend paid to our parent company since 1966.

Our subsidiary companies continue to improve and expand their operations significantly and recognition is given to our managements and staff for their expertise and dedication. Such performance is evident in the growth patterns over recent years and shows promise for realization of future development and achievement.

On behalf of the Board of Directors

A handwritten signature in green ink, reading "William H. Harrison". The signature is fluid and cursive, with the first name "William" and last name "Harrison" clearly legible.

President

**Consolidated Balance Sheets**

December 31, 1978 and 1977

**Assets**

	<u>1978</u>	<u>1977</u>
	(Thousands of dollars)	
<b>FIXED ASSETS:</b>		
Telephone plant, at cost .....	\$2,468,948	\$2,255,641
Accumulated depreciation (Note 1) .....	(557,887)	(484,483)
	<u>1,911,061</u>	<u>1,771,158</u>
Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition .....	32,533	34,002
	<u>1,943,594</u>	<u>1,805,160</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investment in unconsolidated subsidiary (Note 1) .....	46,008	46,008
Other .....	4,318	4,657
	<u>50,326</u>	<u>50,665</u>
<b>CURRENT ASSETS:</b>		
Cash and short-term deposits .....	5,543	6,411
Receivables (including unbilled revenues) .....	90,712	81,968
Materials and supplies, at average cost .....	4,585	4,085
Other .....	5,681	6,006
	<u>106,521</u>	<u>98,470</u>
<b>DEFERRED CHARGES:</b>		
Unamortized cost of issuing long-term debt .....	2,961	2,802
Unamortized loss on foreign exchange (Note 1) .....	12,097	—
Other .....	727	930
	<u>15,785</u>	<u>3,732</u>
	<u>\$2,116,226</u>	<u>\$1,958,027</u>

*Signed on behalf of the Board:*

JOHN H. E. COLBY, Director

WILLIAM H. HARRISON, Director

The accompanying notes form an integral part of these consolidated financial statements.

## Shareholders' Equity and Liabilities

	<u>1978</u>	<u>1977</u>
	(Thousands of dollars)	
<b>SHAREHOLDERS' EQUITY:</b>		
Anglo-Canadian Telephone Company:		
Preferred shares (See page 8) .....	\$ 37,500	\$ 37,500
Common shares (Note 2) .....	12,037	12,037
Premium on common shares .....	34,218	34,218
Reinvested earnings (Note 3) .....	174,985	187,624
	<u>258,740</u>	<u>271,379</u>
Minority interest in consolidated subsidiaries:		
Preference and preferred shares (See page 8) .....	258,249	244,701
Common shares and reinvested earnings .....	197,461	145,951
	<u>455,710</u>	<u>390,652</u>
	<u>714,450</u>	<u>662,031</u>
LONG-TERM DEBT (See page 8) .....	<u>918,701</u>	<u>775,955</u>
<b>CURRENT LIABILITIES:</b>		
Loans for construction expected to be refinanced (Note 1) ...	15,109	136,115
Current portion of income debentures .....	12,000	—
Accounts payable and accrued liabilities .....	49,541	46,472
Due to affiliates .....	8,108	6,060
Advance billings and customer deposits (Note 5) .....	41,994	12,700
Dividends .....	7,460	6,572
Accrued interest .....	18,034	16,486
Accrued taxes .....	16,028	11,283
	<u>168,274</u>	<u>235,688</u>
DEFERRED CREDITS (Note 1) .....	<u>314,801</u>	<u>284,353</u>
<b>CONSTRUCTION PROGRAMS AND COMMITMENTS</b>		
(Note 4)		
	<u>\$2,116,226</u>	<u>\$1,958,027</u>



**Consolidated Statements of Income**

For the years ended December 31, 1978 and 1977

	<b>1978</b>	<b>1977</b>
	(Thousands of dollars)	
<b>OPERATING REVENUES:</b>		
Toll service .....	\$370,669	\$318,402
Local service .....	272,840	244,579
Miscellaneous .....	23,872	21,943
Excess revenues (Note 5) .....	(25,325)	—
	<u>642,056</u>	<u>584,924</u>
<b>OPERATING EXPENSES AND TAXES:</b>		
Maintenance .....	122,977	113,594
Depreciation (Note 1) .....	131,168	117,483
Traffic .....	43,402	40,144
Commercial .....	42,975	38,242
General, administrative and other .....	84,532	76,549
General taxes .....	32,520	28,256
Provision for Federal and Provincial income taxes .....	55,670	50,931
	<u>513,244</u>	<u>465,199</u>
Operating income .....	<u>128,812</u>	<u>119,725</u>
<b>INTEREST AND OTHER (INCOME) DEDUCTIONS:</b>		
Interest charges .....	80,792	75,073
Minority interest in net income and preference and preferred dividends of subsidiaries .....	37,555	34,054
Allowance for funds used during construction .....	(11,481)	(8,787)
Other — net .....	(1,792)	(2,470)
	<u>105,074</u>	<u>97,870</u>
Income from Canadian operations .....	23,738	21,855
<b>DIVIDEND FROM UNCONSOLIDATED SUBSIDIARY (Note 1) .....</b>	<u>416</u>	<u>—</u>
Consolidated net income .....	<u>\$ 24,154</u>	<u>\$ 21,855</u>

The accompanying notes form an integral part of these consolidated financial statements.



**Consolidated Statements of Reinvested Earnings**

For the years ended December 31, 1978 and 1977

	1978	1977
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR .....	\$187,624	\$167,932
ADD —		
Consolidated net income .....	24,154	21,855
	<u>211,778</u>	<u>189,787</u>
DEDUCT —		
Dividends paid on common stock .....	34,218	—
Dividends paid on Cumulative Preferred shares		
4 <sup>1</sup> / <sub>2</sub> % Cumulative Preferred shares .....	281	281
\$2.90 Cumulative Preferred shares .....	363	363
\$2.65 Cumulative Preferred shares .....	848	848
\$3.15 Cumulative Preferred shares .....	567	567
Share issue expenses of consolidated subsidiaries .....	516	104
	<u>36,793</u>	<u>2,163</u>
BALANCE AT END OF YEAR (Note 3) .....	<u>\$174,985</u>	<u>\$187,624</u>

**Consolidated Statements of Funds Used for Capital Expenditures**

For the years ended December 31, 1978 and 1977

	1978	1977
	(Thousands of dollars)	
FUNDS FROM OPERATIONS:		
Net income .....	\$ 24,154	\$ 21,855
Less — Dividends paid on preferred shares .....	(2,059)	(2,059)
	22,095	19,796
Add (deduct) — Expenses not requiring cash outlay:		
Depreciation .....	131,168	117,483
Deferred income taxes .....	34,178	39,126
Allowance for funds used during construction .....	(11,481)	(8,787)
Other — net .....	8,861	11,910
	<u>184,821</u>	<u>179,528</u>
FUNDS FROM FINANCING:		
Stock of subsidiaries issued .....	57,577	46,879
Sale or issuance of long-term debt, net of redemptions and		
unamortized loss on foreign exchange .....	131,297	82,863
(Decrease) increase in loans for construction .....	(121,006)	3,340
	<u>67,868</u>	<u>133,082</u>
OTHER SOURCES (USES) OF FUNDS:		
Dividends paid on common shares .....	(34,218)	—
Decrease (increase) in working capital, excluding		
construction loans .....	45,541	(24,075)
Other — net .....	241	824
	<u>11,564</u>	<u>(23,251)</u>
CAPITAL EXPENDITURES (a) .....	<u>\$264,253</u>	<u>\$289,359</u>

(a) Gross plant additions before deducting allowance for funds used during construction, salvage, etc. amounted to \$284,000,000 for 1978 and \$304,000,000 for 1977.

# ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

## Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1978 and 1977

	Shares	1978	1977
		(Thousands of dollars)	
PREFERRED AND PREFERENCE SHARES:			
Anglo-Canadian Preferred shares, par value \$50 per share, cumulative dividend. Authorized 1,000,000 shares redeemable at \$53 per share; outstanding 750,000 shares:			
4 <sup>1</sup> / <sub>2</sub> % Cumulative Preferred shares .....	125,000	\$ 6,250	\$ 6,250
\$2.90 Cumulative Preferred shares .....	125,000	6,250	6,250
\$2.65 Cumulative Preferred shares .....	320,000	16,000	16,000
\$3.15 Cumulative Preferred shares .....	180,000	9,000	9,000
		<u>\$ 37,500</u>	<u>\$ 37,500</u>
Subsidiaries' Preference and Preferred shares:			
British Columbia Telephone Company			
6% Cumulative Redeemable Preference and Preferred shares (\$100 par value) .....		\$ 5,500	\$ 5,500
4 <sup>3</sup> / <sub>8</sub> % to 5 <sup>3</sup> / <sub>4</sub> % Cumulative Redeemable Preferred shares (\$100 par value) .....		48,000	48,000
4.84% to 10.16% Cumulative Redeemable Preferred shares (\$25 par value) .....		156,700	128,900
\$2.32 Cumulative Redeemable Convertible Subordinate Preferred shares (\$25 par value) .....		19,584	28,926
40¢ Cumulative Redeemable Preferred shares (\$9 par value) .....		—	450
Québec-Téléphone			
5% Cumulative Sinking Fund Redeemable Preferred shares (\$20 par value) .....		1,355	1,515
4 <sup>3</sup> / <sub>4</sub> % to 9 <sup>3</sup> / <sub>4</sub> % Cumulative Redeemable Preferred shares (\$20 par value) .....		26,801	28,080
\$1.68 Cumulative Redeemable Convertible Subordinate Preferred shares (\$15 par value) .....		289	3,119
Premium on Subordinate Preferred shares .....		20	211
		<u>\$258,249</u>	<u>\$244,701</u>
LONG-TERM DEBT:			
Anglo-Canadian Telephone Company			
6 <sup>1</sup> / <sub>2</sub> % Sinking Fund Debentures, Series A, due 1983 .....		\$ 1,040	\$ 1,300
Income Debentures due 1982 at an interest rate of 1/2 Canadian Prime plus 1/2% .....		35,500	—
British Columbia Telephone Company			
First Mortgage Bonds 5% to 11%, due 1980 - 2003 .....		746,897	662,286
First Mortgage Loan 11%, due 1992 .....		28,029	25,152
General Mortgage Sinking Fund Bonds 5 <sup>3</sup> / <sub>4</sub> % to 6 <sup>1</sup> / <sub>2</sub> % .....		—	3,968
Québec-Téléphone			
First Mortgage Redeemable Sinking Fund Bonds 5 <sup>1</sup> / <sub>2</sub> % to 11 <sup>7</sup> / <sub>8</sub> %, due 1982 - 1996 .....		112,591	87,882
General Mortgage Sinking Fund Bonds 5 <sup>3</sup> / <sub>4</sub> % due 1983 .....		3,800	3,875
Total principal amount .....		927,857	784,463
Less - Unamortized discount on long-term debt .....		9,156	8,508
Total long-term debt .....		<u>\$918,701</u>	<u>\$775,955</u>

The accompanying notes form an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

For the years ended December 31, 1978 and 1977

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of consolidation

All subsidiaries have been included in the consolidated financial statements except for a wholly-owned subsidiary in the Dominican Republic.

The consolidated subsidiaries and equity ownership at December 31, 1978, are as follows:

	Percent Owned
British Columbia Telephone Company	50.14
Dominion Directory Company Limited	100.00
Québec-Téléphone	54.23
York Investment Co. Ltd.	100.00

During 1977, management reached a decision to place the earnings from Compania Dominicana de Telefonos, C. por A. (Dominicana) on a cash basis in the consolidated financial statements of Anglo-Canadian Telephone Company (Anglo). This decision was reached because of diminished prospects for local government approval of remittance of adequate dividends on Anglo's equity investment in Dominicana. Accordingly, 1978 and 1977 consolidated results of operations do not include any revenues or earnings from this subsidiary except for \$416,000 of dividends received during 1978. The investment in Dominicana is being carried at its net book value as of December 31, 1976; earnings will be recorded only as dividends are remitted. This treatment will continue as long as the aforementioned conditions exist.

Management of the Dominican subsidiary has been and is continuing to seek approval for a general rate increase. It is also attempting to obtain approval of increased dividend remittances. Management is of the opinion that the carrying value of the investment in Dominicana as of December 31, 1978, will ultimately be realized in full.

Summary financial information for Dominicana, translated to Canadian dollars, is as follows:

	1978	1977
	(Thousands of dollars)	
Telephone plant, less accumulated depreciation	\$ 94,650	\$ 97,285
Total assets	123,240	109,866
Long-term debt	52,077	48,281
Net book value	62,578	51,938
Net earnings before unrealized gain on translation from pesos to Canadian dollars	8,716	5,529
Net earnings	11,769	5,930

The above information for 1978 has been translated from Dominican pesos (at par with the \$U.S.) to Canadian dollars following the method recently adopted by the Canadian Institute of Chartered Accountants entitled "Translation of Foreign Currency Transactions and Foreign Currency Financial Statements". Under this policy, debt payable in currencies other than the Canadian dollar is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing on December 31, 1978. The previous policy was to translate the financial statements using the current/non-current method.

During 1978, Dominicana realized \$3,500,000 of exchange gain on the refinancing of Canadian dollar debt. This exchange gain has been credited to telephone plant and is being amortized over the estimated lives of the related assets.



## Notes to Consolidated Financial Statements (continued)

### b) Depreciation of Telephone Plant

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

### c) Loans for construction

The loans for construction have been used, principally, to finance the subsidiaries construction programs, and it is expected that they will in time be refinanced by issues of long-term debt or equity capital.

### d) Deferred credits

Certain subsidiaries are presently claiming for income tax purposes capital cost allowance in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to \$314,480,000 and \$280,302,000 as of December 31, 1978 and 1977, respectively.

### e) Foreign exchange translation

Certain consolidated subsidiaries have debt payable in U.S. dollars. The principal means of accounting for such debt is to reflect in the financial statements the Canadian dollar equivalent at the rate of exchange prevailing on December 31, 1978. The unrealized loss on long-term debt of \$12,755,000 is being amortized over the remaining term of the debt commencing in 1978. This amortization amounted to \$658,000 in 1978. Previously, the policy was to reflect the debt at the rate of exchange in effect on the date of issue and to recognize gains or losses at the date of retirement.

## 2. COMMON SHARES, \$10 PAR VALUE

Authorized — 1,700,000 shares

Issued and outstanding — 1,203,685 shares

## 3. REINVESTED EARNINGS

Under the terms (the most restrictive) of the Trust Deed pursuant to which the 6 $\frac{1}{2}$ % Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company \$4,789,000 of the consolidated reinvested earnings at December 31, 1978 were restricted as to the payment of common dividends.

## 4. CONSTRUCTION PROGRAMS AND COMMITMENTS

### a) Construction programs

The consolidated telephone subsidiaries' 1979 construction programs as now planned, approximate \$330,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and loans for construction pending permanent financing.

### b) Lease obligations

Contractual obligations in respect of long-term leases of certain subsidiaries amounted to \$20,256,000 for real property and equipment at December 31, 1978, related rentals for the year then ended were \$5,964,000 and the minimum amount applicable to the five years subsequent to December 31, 1978 is \$18,575,000.



## Notes to Consolidated Financial Statements (continued)

### c) Pension plans

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans, was \$21,179,000 in 1978 and \$18,758,000 in 1977, respectively, which includes \$4,139,000 in 1978 and \$4,826,000 in 1977 respectively, for the amortization of past service costs (over periods not exceeding 25 years from January 1, 1965) and of experience deficiencies. Such amounts were paid to trustees. The pension fund assets exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1975, the latest valuation date. The present value of the estimated unfunded costs amounted to approximately \$14,538,000 at December 31, 1978.

### 5. ANTI-INFLATION GUIDELINES

As a result of complying with the Anti-Inflation Act and regulations as administered by the Canadian Radio-television and Telecommunications Commission (CRTC), British Columbia Telephone Company had excess revenues of \$25,325,000 for 1978. The CRTC, in its decision dated December 13, 1978, has directed that these revenues be carried forward to the 1979 fiscal year. This amount is included in "Advance billings and customer deposits" in the Consolidated Balance Sheet.

The Company and its subsidiaries have determined that, in all other respects, they are in compliance with the Act and regulations.

### 6. SUBSEQUENT EVENTS

On February 14, 1979, British Columbia Telephone Company announced its intent to acquire the ownership of GTE Automatic Electric (Canada) Ltd. and its wholly-owned subsidiary, GTE Lenkurt Electric (Canada) Ltd. GTE Automatic Electric (Canada) Ltd. is wholly-owned by a subsidiary of General Telephone & Electronics Corporation which in turn is the owner of Anglo-Canadian Telephone Company. The acquisition, which is expected to be at a purchase price of approximately \$47,000,000 and by way of the issuance of ordinary shares from the treasury of this subsidiary, is subject to the approval of the Boards of Directors of the companies and the CRTC.

## Auditors' Report

TO THE SHAREHOLDERS OF  
ANGLO-CANADIAN TELEPHONE COMPANY:

We have examined the consolidated balance sheets and the summary of preferred and preference shares and long-term debt of Anglo-Canadian Telephone Company (a Quebec company) and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, reinvested earnings and funds used for capital expenditures for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1978 and 1977, and the results of their operations and funds used for capital expenditures for the years then ended, in accordance with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for translation of foreign currency debt as described in Note 1 to the consolidated financial statements, were applied on a consistent basis during the periods.

ARTHUR ANDERSEN & Co.,  
Chartered Accountants.

Montreal, February 1, 1979.  
(except with respect to the  
matter discussed in Note 6, as  
to which the date is February  
14, 1979).



